



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 5/13/2002

GAIN Report #RP2023

Philippines

Coffee

Annual

2002

Approved by:

Charles T. Alexander

US Embassy

Prepared by:

Perfecto G. Corpuz

Report Highlights:

Growing demand for coffee coupled with the continuing slow decline in domestic coffee production through MY02/03 and low world market prices will result in a surge in coffee imports in MY01/02 to 292,000 bags. Imports in MY02/03 will likely decline compared to its MY01/02 level as prices increase and stock levels remain adequate.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Manila [RP1], RP

TABLE OF CONTENTS

Executive Summary.....	Page 1 of 6
Production.....	Page 1 of 6
Prices Table.....	Page 1 of 6
Consumption.....	Page 2 of 6
Trade.....	Page 3 of 6
Coffee Import Trade Table.....	Page 3 of 6
Coffee Export Trade Table.....	Page 4 of 6
Policy.....	Page 4 of 6
Marketing.....	Page 4 of 6
Coffee PSD Table.....	Page 6 of 6

Executive Summary

Philippine coffee consumption will grow through MY02/03 as the Philippine economy improves and its population continues to expand. Coffee consumption will remain concentrated in the urban areas where the flourishing food retail sector thrives. Strong demand for coffee and declining domestic coffee production during the period will result in increasing coffee imports through MY02/03. Coffee production will decline as a result of rampant land conversion and a predicted extended dry spell brought about by the El Nino weather disturbance. Coffee imports are expected to surge in MY01/02 encouraged by an oversupply of coffee beans and low global coffee prices. While coffee bean imports are still expected to dominate overall coffee imports, a dramatic increase in soluble coffee imports is predicted through MY01/02. Adequate stock levels entering MY02/03, however, coupled with predicted higher world market coffee prices are likely to result in a decline in coffee imports during the year.

Production

According to the Bureau of Agricultural Statistics (BAS), coffee production in CY2001 increased 3 percent to reach 129,790 tons from 125,620 tons in CY2000. The BAS figure, however, is not in 60 kg. GBE basis but in raw bean form. On a market year basis, the International Coffee Organization Certifying Agency (ICOCA) also reports coffee production in MY00/01 at 775,000 bags GBE - higher than the previous market year output. Favorable weather conditions which prevailed during the year resulted in better-than-expected coffee harvests. Because of this, the production figure in the table was raised and is the estimate of Post.

Coffee output the following year is expected to decline slightly as land conversion and shifting to other crops is expected to continue, enhanced by increasing competition from cheap bean imports. Area planted, area harvested and total tree population are expected to marginally decline in MY01/02 from its MY00/01 level. Production will likely decline again the following year or in MY02/03 as a result of a predicted dry spell as a result of the El Nino weather disturbance.

Although only 35 percent of total Philippine coffee is produced in Southern Mindanao, it is where expansion of coffee production areas is most likely to occur. In Parang, Jolo, five farming cooperatives reportedly have obtained a P38 (\$0.69) million loan from the Land Bank of the Philippines (LBP) to produce Robusta coffee for Nestle Phils., Inc.

Domestic coffee buying prices as recorded by the ICOCA have been going down since 1999. Monthly coffee bean prices in 2001 were mostly down from their 2000 levels. Coffee prices during the former year averaged P30.77 (\$0.60) per kilo, down 17 percent from the P37.14 (\$0.73) average price per kilo recorded in 2000. Late last year, average domestic buying prices dropped to around P26 (\$0.51) per kilo due to very good production by Vietnam. Prices are expected to recover and increase slightly in early 2003 as Vietnam reportedly has announced it will cut back on its production to restore prices to more normal levels.

Prices Table			
Country	Philippines		
Commodity	Coffee, Green		
Prices in	Pesos	per uom	Kg. GBE

Year	2000	2001	% Change
Jan	43.95	32.75	-25.48%
Feb	41.50	32.75	-21.08%
Mar	40.50	32.75	-19.14%
Apr	39.50	32.75	-17.09%
May	39.50	32.75	-17.09%
Jun	39.50	32.75	-17.09%
Jul	36.50	32.75	-10.27%
Aug	33.25	31.00	-6.77%
Sep	33.25	31.00	-6.77%
Oct	32.75	26.00	-20.61%
Nov	32.75	26.00	-20.61%
Dec	32.75	26.00	-20.61%
Exchange Rate	50.82	Local currency/US \$	

Source: International Coffee Organization Certifying Agency

Consumption

Philippine GDP last year grew 3.4 percent according to the National Economic and Development Authority (NEDA), exceeding earlier GOP forecasts although lower than the 4.0 GDP expansion in 2000. Agriculture and the services sector fueled the economic growth last year. Agriculture's growth and income remittances from overseas Filipino workers likewise resulted in a 3.4 percent increase in personal consumption spending. Despite the slowdown of the global economy, GDP in 2002 is projected to grow by 4.0 to 4.5 percent with agriculture expected to grow at a slower 2.7 to 3.7 percent due to the expected El Nino weather disturbance. Government planners expect inflation to fall within a range of 4.5 to 5.5 percent and personal consumption predicted to accelerate its growth this year.

The Asian Development Bank (ADB), on the other hand, forecasts the Philippine economy to grow at a lower 4 percent in 2002 as a result of private consumption and improved exports. The ADB expects this to increase to 4.5 percent in 2003 as the world economy recovers and domestic fiscal reforms begin to take effect. Inflation is expected to remain stable at 5 to 6 percent in 2002-2003, according to the ADB.

Positive economic prospects through 2003 and a rapidly growing Philippine population are expected to result in the continued growth of overall coffee consumption through MY02/03. Existing income distribution patterns as well as demographic considerations will support this growth during the period (refer to MARKETING). Despite the slowing down of the economy in 2001, coffee consumption was raised in MY00/01 and MY01/02 as a result of strong coffee demand complemented by very low coffee prices. Soluble coffee continues to be the dominant coffee consumed.

Trade

Overall coffee imports in CY2001, according to data from the National Statistics Office (NSO), declined 3 percent from the previous year's level mainly due to uncertainty relative to trade policy as a result of the change in government early 2001. Importers opted to adopt a wait-and-see position particularly in the first semester of the year as the Arroyo Administration took over the reins of government. Imports slowed down 28 percent in the first semester of the year compared to its year-ago level but recovered and increased 16 percent in the second half. Imports during the year were dominated by Vietnam with a 52 percent market share, followed by Indonesia and Singapore with market shares of 25 and 9 percent, respectively. Coffee imports from the U.S., on the other hand, more than doubled in 2001 compared to its previous year's level for a 5 percent market share. Coffee imports during the year were predominantly in raw coffee form (63 percent).

Import Trade Matrix			
Country	Philippines		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	K 60kg. GBE
Imports for:	2000		2001
U.S.	5	U.S.	12
Others		Others	
Indonesia	179	Vietnam	127
Vietnam	43	Indonesia	61
Singapore	15	Singapore	23
Malaysia	10	Malaysia	7
China	1	Korea	3
Total for Others	248		221
Others not Listed	2		12
Grand Total	255		245

Source of basic data: National Statistics Office

On a market year basis, coffee imports in MY00/01 were adjusted and based on basic data from the NSO. Of the total coffee imported during the period, 85 percent were raw beans, 3 percent roasted/ground coffee and 13 percent soluble or coffee extracts (figures may not add up due to rounding off). Indonesia was the dominant coffee supplier in MY00/01 with a 54 percent share of all coffee imports followed by Vietnam and Singapore with shares of 20 percent and 14 percent, respectively. The U.S. had a market share of 5 percent of overall coffee imports during the year. Coffee imports are expected to increase in MY01/02 as local coffee demand is expected to remain strong and world coffee prices remain fairly low. In addition, the Peso has remained fairly stable in relation to the US\$. A dramatic increase in soluble coffee imports is expected in MY01/02 as a result since soluble coffee is much easier to store compared to raw coffee beans.

For MY02/03, overall coffee imports are expected to decline from its MY01/02 level due to adequate stock levels and the expected rise in global coffee prices as Vietnam cuts back on production as well as the El Nino weather disturbance that will likely lower global coffee production. Vietnam, however, is still expected to dominate coffee imports in MY02/03. Overall coffee imports from the U.S. are expected to remain flat during the year compared to the previous year's level.

Coffee exports in CY2001 declined by half from 6,000 bags in CY2000 to 3,000 destined mainly for Oman and Malaysia. Exports in 2001 were mainly in raw bean form mostly of the Excelsa and Liberica varieties. On a market year basis, coffee exports in MY00/01, was pared down slightly based on the NSO data. Overall coffee exports will likely stay flat through MY02/03 although a shift from soluble coffee to raw bean form, mainly Robusta beans, is expected.

Export Trade Matrix			
Country	Philippines		
Commodity	Coffee, Green		
Time period	Jan-Dec	Units:	K 60kg. GBE
Exports for:	2000		2001
U.S.		U.S.	
Others		Others	
Singapore	2	Oman	1
Oman	2	Malaysia	1
Hongkong	1		
Total for Others	5		2
Others not Listed	1		1
Grand Total	6		3

Source of basic data: National Statistics Office

Policy

The 2001 tariff rate quota or Minimum Access Volume (MAV) allocation for coffee beans (HS 0901) was 1,258 tons. The volume issued last year amounted to 1,169 tons for a 93 percent MAV utilization rate. For soluble coffee or coffee extracts (HS 2101.11 10), the MAV last year was 28 tons of which the total volume issued was 27.8 tons for a 99.3 percent utilization rate. The coffee beans MAV this year is 1,324 tons while for soluble coffee the 2002 MAV is at 30 tons. There is no change in the coffee MAV schedule through June 30, 2005 as well as the effective tariffs for the various coffee types as reported in the previous annual report, RP1026.

Marketing

Although the positive economic outlook and the rapidly growing Philippine population are expected to result in

increased coffee consumption through MY02/03, it should be noted that economic growth as expressed in GDP terms does not consider remittances by Filipino overseas workers which are considerable. Last year, total remittances reached an estimated \$6.2 billion or roughly 8 percent of the country's GNP. This partly explains the growth in personal consumption spending last year despite the slowdown of the Philippine economy.

Distribution of national income is also highly skewed in the Philippines. About two-thirds of the country's income goes to the top 30 percent of Philippine families while the low 30 percent receive less than 8 percent. This infers that roughly 26 million of the estimated 78 million Filipinos are not seriously affected by the behavior of the GDP. Growing at an annual rate of 2.4 percent, the Philippines is one of the fastest, if not the fastest, growing markets in the region. In addition, more than half of all Filipinos today are below 25 years old and their needs are as wide and as varied as their number.

There are also rural-urban disparities. Roughly half of the Philippine population reside in the rural areas where average living standards are considerably lower (about half) and poverty levels are significantly higher (about two-thirds). According to researchers from the Philippine Institute of Development Studies (PIDS), less than 25 percent of the urban population lives in poverty compared to 54 percent in the rural areas. As mentioned in previous reports, coffee consumption is concentrated in the cities and urban centers where the flourishing food retail outlets are situated and where drinking coffee has evolved into a lifestyle and a status symbol of the affluent.

PSD Table						
Country	Philippines					
Commodity	Coffee, Green		(K HA)(MILLION TREES)(1000 60 KG BAGS)			
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Planted	136	136	135	135	0	135
Area Harvested	114	114	113	113	0	113
Bearing Trees	96	96	95	95	0	95
Non-Bearing Trees	15	15	14	15	0	15
TOTAL Tree Population	111	111	109	110	0	110
Beginning Stocks	76	76	113	144	0	218
Arabica Production	35	40	35	40	0	38
Robusta Production	670	670	665	665	0	660
Other Production	25	35	25	30	0	28
TOTAL Production	730	745	725	735	0	726
Bean Imports	200	191	200	200	0	190
Roast & Ground Imports	2	6	2	2	0	2
Soluble Imports	10	29	10	90	0	80
TOTAL Imports	212	226	212	292	0	272
TOTAL SUPPLY	1018	1047	1050	1171	0	1216
Bean Exports	4	2	4	3	0	3
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	1	1	2	0	0	0
TOTAL Exports	5	3	6	3	0	3
Rst,Ground Dom. Consum	75	75	80	85	0	90
Soluble Dom. Consum.	825	825	835	865	0	910
TOTAL Dom. Consumption	900	900	915	950	0	1000
Ending Stocks	113	144	129	218	0	213
TOTAL DISTRIBUTION	1018	1047	1050	1171	0	1216

